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**VerticalNet, Inc. (NASDAQ: VERT)**

**Update: New management and competition in the B2B sector - BUY**

August 9, 2000

**KEY CONSIDERATIONS**

- Hiring Joseph Galli as President and CEO reinforces VerticalNet's operational and execution capacity. Mark Walsh, former CEO, has been appointed Chairman.
- Completed the acquisition of NECX.com and America IC Exchange to strengthen its online exchange in electronic components.
- Announced VerticalNet's eMarketplace Suite, which combines Tradeum's Xchange Suite with VerticalNet's Isadra technologies for cooperative commerce to build a digital marketplace.
- Microsoft three-year alliance contributed more than \$200 million in revenues for buying VerticalNet's storefronts. Microsoft also invested \$100 million dollars as part of a marketing and distribution deal.
- Launched VerticalNet Europe, Japan, and UK; and agreed a strategic alliance with Metropolis in South Africa.

Recent Price	\$44.13
52WK Low	\$13.75
52WK High	\$148.38
P/E	N/A
P/Book	5.08
P/Sales	70.76
Market Capitalization	\$3.68 billion
Shares Outstanding	83.05 million
Float	47.90 million
Daily Volume (3-month Average)	3.08 million
<b>EPS</b>	
1999A	\$(0.86)
2000E	\$(2.37)
2001E	\$(2.49)
Current Ratio	1.98
Total Debt to Equity	0.22
LT Debt	0.15
Total Cash	\$120.4 million

**ONE-YEAR PRICE AND VOLUME GRAPH**



**COMPANY PROFILE**

VerticalNet, Inc., owns and operates 57 industry-specific Web sites designed as online business-to-business communities, known as vertical trade communities. These vertical trade communities provide users with sources of information, interaction and e-commerce. Additionally, VerticalNet provides auctions, catalogs, bookstores, career services and other e-commerce capabilities horizontally across its communities with sites like Industry Deals.com, IT CareerHub.com, LabX.com and Professional Store.com. VerticalNet's NECX Exchange provides an exchange for the electronic components industry. The company is expanding globally into South Africa, Europe and Japan, which is currently 40% traffic of the sites. Internet Capital Group owns about 37% of the company; Microsoft also owns a small stake.

This report was prepared by Shih-han Su and David R. Rivas, Ph.D.

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## BUSINESS MODEL

### PRODUCTS AND SERVICES

VerticalNet, Inc. owns and operates vertical trade communities, which are targeted business-to-business communities of commerce on the Internet. Each vertical trade community, having its own editor and a sales manager, is designed to attract technical and purchasing professionals with highly specialized product and specification requirements and purchasing authority or influence.

1. Advertisement

VerticalNet sells "Storefront" (Web pages that focus on advertisers' products and provides a link to the advertisers' web site), and newsletter sponsorships on the trade communities. Generally, the advertising contracts do not extend beyond one year although certain contracts are for multiple years.

2. Web-site Development

VerticalNet also entered into a number of strategic co-marketing agreements where the Company is responsible for creating co-branded sites.

3. E-Commerce Solutions

VerticalNet provides a variety of electronic commerce opportunities for buyers and suppliers, such as Asset remarking, Auction/Industry Deals; and other services, like on-line professional education courses and virtual trade shows.

VerticalNet International is partnering with local players and leveraging the successful VerticalNet model of content, community, context, collaboration and commerce to exploit the international opportunity.

### CHANGE IN MANAGEMENT AND STAFF

#### Operation Focus

Joseph Galli, former chief operating officer of Amazon.com, becomes the chief executive of VerticalNet. Mark Walsh, VerticalNet's president and CEO, will become chairman, succeeding Doug Alexander, who becomes vice chairman. Galli will be charged with executing the Company's global growth and integration plans, while Walsh will be responsible for VerticalNet's overall strategy.

#### International Operation

David Kostman, formerly a Managing Director in Lehman Brothers' Investment Banking Division where he led Lehman Brothers' Internet B2B Group, becomes the President of VerticalNet International to oversee its international operation.

#### Mergers & Acquisitions

James W. McKenzie, Jr. has been appointed Senior Vice President and General Counsel of VerticalNet, who served for Morgan, Lewis & Bockius LLP before, the nation's fourth largest law firm, where he focused on mergers and acquisitions, corporate finance and e-commerce companies.

### REVENUE STREAMS

- Advertising and sponsorship
- E-commerce
- Exchange transactions

The majority of revenue originally came from Internet advertising, including the development of Storefront. Since the acquisition of NECX.com, VerticalNet expands its revenue stream to exchange transactions. In the future, VerticalNet expects to apply the successful transaction experience from NECX.com to other communities. According to its Q200 report, the exchange revenue represents 54% of the total revenues, advertising revenue, including storefronts and sponsorships, accounted 38% of the total, and e-commerce revenues, including slotting fees, product sales, commissions, education, training and auction listing fees, takes the rest as 8% of the total revenues.

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## BUSINESS STRATEGY

According to the model from Internet Capital Group, VerticalNet Inc. is positioned as liquidity driver. It provides transactional volume to various vertical or horizontal market makers by meeting the specific needs of a segment of B2B market participants or a type of B2B participant. With the advantage of early position in business-to-business sector, VerticalNet, Inc. runs multi-faced strategy in its diversification of industries, services, and revenue streams.

- **Diverse Industry**

The company has 57 individual communities in 11 industry sectors, sampling a wide cross section of industry groups such as communications, environmental service, food services, and healthcare. Some industries have several communities, but some are still not so active. For example, there are *ElectronicsWeb*, *Embedded Technology.com*, *Medical Design Online*, *Semiconductor Online*, *Test and Measurement.com* underneath its "High Tech" sector, but only *Property and Casualty.com* in its "Financial Service" sector. Each community includes news, directories and a marketplace, which is organized by its editor with industry-specific knowledge. The company is trying to make each community an important resource for businesses. It might be a good strategy to put eggs in different baskets at this time. However, in attempting to fulfill a board range of industries, the company would face the challenge of providing enormous amounts of compelling and comprehensive content, products and service on each community. There is potential risk for a company catering diverse industry result in spreading out too thin.

- **Diverse Services and Revenue Streams**

VerticalNet provides diverse on-line services, which includes storefront, sponsorship, and e-commerce center. Each service has its growth rate steadily. In the first half of 2000, storefront grew 187% sequentially to 8,345 from 2,903 in the end of 1999 in result mainly from strategic alliance with Microsoft. Net exchange revenues from NECX.com reached \$29.1 million from \$2.3 million last year. With the recent acquisition of NECX.com, AICE and last year Real World Electronics, VerticalNet has the opportunity to position as a principal market maker in electronic components. We would not surprise to see the increasing revenue from exchange transaction in the future.

VerticalNet intends to enhance its revenue streams as Storefronts transition into more highly evolved e-commerce center. We believe that VerticalNet's e-commerce performance will largely depend on the deployment of its Storefronts at this time. However, there is little distinguishing feature between its Storefront and e-commerce center. To be more attractive for company to upgrade, VerticalNet would enhance the level of service in e-commerce center, which will become an important component in B2B marketplace. For easier utilized, we also feel the need of more graphical user interface, and wish to see the improvement in its design in the future.

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**Storefront**

Storefronts are conveniently integrated within product/supplier results to get product and service information, so you can quickly request literature, product samples, quotes, and customer service.

**E-commerce Center**

These detailed vendor sites let you make direct, immediate transactions with full-function online catalogs and other e-commerce features, such as auctions, training and more.  
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VerticalNet mainly addresses in supplier-specific web sites in its communities where vendors show their business and products. After the acquisition with AICE by NECX.com, we would not be surprised to see a complete buy- and sell-side solution in marketplace. We look forward to see VerticalNet end up improving its level of online service through the acquisitions.

- **E-commerce capability**

Meanwhile, VerticalNet plays as mostly a B2B portal and content provider. Situating in this competitive B2B scene, the Company plans to expand and improves its e-commerce capabilities through

- selling goods and services promoted on their advertisers' storefronts and e-commerce center;

- auctions;
- electronic marketplaces; and
- additional exchanges.

It is likely that its giant competitors, like Ariba and Commerce One, have positioned in B2B exchange marketplace. (Please refer to COMPETITORS section) Also, those competitors take the advantage of having established relationships for advertising and experiencing transaction process in B2B marketplace. Upon recent acquisition with Tradeum, VerticalNet seems to diversity its market strategies to not only creating and owning its own marketplaces, but also provide technology solutions to other dotcom company. With the substantial increase in competition, the e-commerce transition is causing a shakeout and a consolidation in the sector. We would expect VerticalNet could fulfill the expansion shortly.

- Alliances and acquisitions

As most Internet companies, VerticalNet enriches and expands its platform through alliances with and acquisitions of existing companies. Please refer to RECENT AGREEMENT AND ACQUISITIONS for details.

- International expansion

VerticalNet is expanding globally into Europe, Japan, and beginning with Metropolis in South Africa. The international business currently runs 40% traffic in its sites. The expanded international strategy acknowledges the global trend in business that is supported by enhanced communications and the build out of the VerticalNet model into a Global Trading Network. VerticalNet plans to support current global operations and capitalize on new opportunities to build a network of global marketplaces. The company's subsidiaries also try to stretch themselves everywhere. Tradeum - the B2B marketplace tools provider with R&D facilities in Israel, and NECX.com - the electronics parts exchange with offices in Malaysia, Sweden and Ireland, as well as its NECX Asia joint venture with Sumitomo in Singapore, are further examples of VerticalNet's continuing commitment to offer a global platform.

## COMPETITION

Although there might be a potentially \$1.7 trillion dollars in B2B market, no company would guarantee its business model could work out successfully. Each company is performing different strategy models to seize the opportunities being a winner in B2B sector.

VerticalNet with its unique business model is trying to expand its business from traditional portal- an online trade publication to e-commerce transaction services. The second quarter's exchange revenue shows a progress in its transition to e-commerce. However, with this single exchange revenue source, we would expect VerticalNet expand the exchange revenue stream to its communities as its diverse strategies. We would keep an eye on how quickly VerticalNet can bring the exchange to all communities to show the improved margins and efficiencies of B2B.

The big players, like Ariba and Commerce One, distinguish themselves as core B2B infrastructure providers, and target at Fortune 500 enterprises and major international enterprises to build a marketplace for them. Both are targeting the global marketplaces serve multiple buyers and suppliers on line. However, Ariba and Commerce One have different business strategies: Ariba concentrates on selling their software and forming an industry-link network; Commerce One is looking into large-scale online exchanges, called "mega exchanges", instead of being purely software-provider. Although they are competitors to VerticalNet at this time, it might be a chance to see them work together by their software expertise in the future.

### Commerce One

- 72 marketplaces (communities), of which 34 are operational
- Revenues: professional services; software maintenance; marketplace subscription fees (Buysii); and transaction fees (Suppliers) \*The last two are immaterial.
- Products/Services: marketplace solutions, Commerce One Global Trading Web

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- Acquired AppNet, Inc. to accelerate the pace of implementation for its e-marketplaces worldwide
  - Europe, Latin America, Taiwan, Spain, Japan, Australia, Korea, Canada, and South Africa
  - Covisint- one of the largest B2B marketplace: The venture calls for Ford, General Motors, Daimler Chrysler, Nissan and Renault to merge their Web-based supply exchanges into a new business portal intended to help the automotive industry's buyers and sellers improve purchasing efficiencies and cut costs.

#### Ariba

- Revenues: License, and Maintenance
- Products/Services: Solutions for Buyers, Suppliers, and Market Makers; Ariba B2B Commerce Platform
- Alliance with IBM and i2 to develop, market and sell the industry's solution for B2B eCommerce and collaboration.
- Europe, Japan, India, Greater China, Hong Kong, Korea, Singapore, Taiwan, Australia and New Zealand

Both VerticalNet and FreeMarkets are prominent marketplace builders with expertise in industry-specific content and online auctions respectively.

#### Freemarket

- FreeMarkets B2B eMarketplace enables sourcing products from more than 130 supply verticals.
- Specialized in executing online auctions for buying organizations with over \$5.4 billion of purchase orders to date
- Services/Products: FreeMarkets Desktop, a web-based suite of collaborative commerce tools for professional buyers. FreeMarkets Integration Suite, an advanced sourcing platform that integrates Enterprise Resource Management (ERP) and Product Data Management (PDM) solutions with the FreeMarkets B2B eMarketplace.
- UK, Belgium, Switzerland, Hong Kong, India, and Singapore
- Conducted the first reverse auctions ever held for the Federal Government. These auctions were conducted on behalf of the United States Postal Service and the United States Navy.

Despite of those big chunks in B2B industry, there are still plenty of players with targeting to mid-size and small business. We would list some details from the companies below:

Diverse industries: Asia Source Online; BizBuyer; BizProLink; i2i; Onvia; PurchasePro.com; Tradeout.com; Ventro; Wiznet; Single industry: B2B galaxy (food); MaterialNet; Global Sources (electronic)

#### Ventro

- Operates 7 companies in different industries.
- Services/Products: Ventro marketplace companies offer complete e-commerce solutions consisting of extensive online marketplaces, electronic procurement, the systems integration needed to interface with third-party and back-office systems, and comprehensive services and support.
- Revenue: Transaction
- Poised to capitalize on high-potential vertical markets within the broader B2B e-commerce industry. Ventro will create these companies through joint ventures with industry-leading partners or through acquisitions.
- Europe
- MarketMile LLC, a new company formed with American Express Co., will allow customers to purchase items such as office and industrial supplies and business services including temporary labor. It will initially target mid-sized companies, with plans to expand into the markets for large and small firms. This marketplace will use Ariba's technology.

#### Wiznet

- The company has put customer catalogs, manuals and other materials from 28,000 suppliers on the Internet in their original form. Suppliers include large corporations, such as General Electric, Harbinger, and IBM, and smaller companies, such as API Heat Transfer.

- Products/Services: eCommerce catalog, product information, other supplier content management, and interaction capabilities to facilitate transactions
- Announced a partnership with INTESA to provide content management services for INTESA's Latin America-based eCommerce portal.
- \* Provide catalog services for VerticalNet

#### BizProLink

- Internet Business Service Provider (iBSP) Network supporting the daily needs of businesses within 124 industrial sectors (communities)
- Products/Services: free storefront, e-commerce: Transactions and auctions, news and information
- Target small and medium companies

#### PurchasePro.com

- Revenue: network access fees; transaction fees from its members; on-time licensing fee and annual maintenance fees for private networks; advertising, web site development, hosting and maintenance
- Products/Services: Public/ Private E-marketplaces, RFQ.RFP Automation, Requisitioning, Electronic Catalogs
- Targets small and medium-sized businesses, but it also has larger customers such as Carnival Cruise Lines
- \* VerticalNet communities will gain access to PurchasePro.com's public marketplace, an agreement to implement the Web-enabled version of PurchasePro.com's purchasing system in VerticalNet's communities of FoodServiceCentral.com and the recently launched E-Hospitality.com

The Company	Products/Services	Strengths	Weaknesses	Opportunity
VerticalNet	<ul style="list-style-type: none"> <li>• advertisement</li> <li>• Storefront</li> <li>• e-Commerce Center</li> </ul>	<ul style="list-style-type: none"> <li>• Well established portal services</li> <li>• Acquire TRADEUM, moving to e-commerce</li> <li>• Alliance w. Microsoft</li> </ul>	<ul style="list-style-type: none"> <li>• Still look like on line content publishing, no significant e-commerce activities in its communities</li> </ul>	<ul style="list-style-type: none"> <li>• Transaction fees / commission fees</li> <li>• Global expansion</li> </ul>
E-commerce & software				
Ariba	<ul style="list-style-type: none"> <li>• eMarketplace solutions</li> <li>• Ariba B2B Commerce Platform</li> </ul>	<ul style="list-style-type: none"> <li>• Big clients</li> <li>• Alliance w. IBM &amp; i2</li> </ul>	<ul style="list-style-type: none"> <li>• Worry of revenue growth from license fee while the market becomes stable</li> </ul>	<ul style="list-style-type: none"> <li>• Best selling software</li> <li>• Global expansion</li> </ul>
Threats: <ul style="list-style-type: none"> <li>• e-commerce experience</li> <li>• Software for market maker: Ariba ORMS and Ariba Network</li> </ul>				
Commerce One	<ul style="list-style-type: none"> <li>• eMarketplace Solutions</li> <li>• Commerce One Global Trading Web</li> </ul>	<ul style="list-style-type: none"> <li>• Big clients</li> <li>• Acquire AppNet</li> </ul>	<ul style="list-style-type: none"> <li>• Boggling by FTC antitrust test</li> </ul>	<ul style="list-style-type: none"> <li>• Successful gega exchange, like "Covisin"</li> <li>• Global expansion</li> </ul>
Threats: <ul style="list-style-type: none"> <li>• With 86.com to create an online marketplace for foodservice operators and distributors</li> <li>• Software for market maker: Commerce One MarketSite Portal Solution for Net Market Makers</li> </ul>				
FreeMarket	<ul style="list-style-type: none"> <li>• eMarketplace</li> </ul>	<ul style="list-style-type: none"> <li>• Expertise in online auction technology</li> </ul>	<ul style="list-style-type: none"> <li>• Single service</li> </ul>	<ul style="list-style-type: none"> <li>• Market maker</li> <li>• Global expansion</li> </ul>
Online Publisher				
Wiznet	<ul style="list-style-type: none"> <li>• supplier catalogs</li> <li>• product information</li> <li>• content</li> <li>• interaction capabilities to facilitate transactions.</li> </ul>	<ul style="list-style-type: none"> <li>• Well known contents management</li> </ul>	<ul style="list-style-type: none"> <li>• Interaction through e-mail, not real e-commerce</li> </ul>	<ul style="list-style-type: none"> <li>• Become a expertise in content management</li> </ul>
BizProLink	<ul style="list-style-type: none"> <li>• Auction (like eBay)</li> <li>• news and information</li> </ul>	<ul style="list-style-type: none"> <li>• Free storefront</li> </ul>	<ul style="list-style-type: none"> <li>• No strong brand recognition</li> </ul>	<ul style="list-style-type: none"> <li>• Content provider</li> </ul>
Threats: <ul style="list-style-type: none"> <li>• Similar industries operation and identical services</li> <li>• Same market target with VerticalNet</li> </ul>				

Besides, some big players in Internet sector, such as Yahoo, and eBay, step into B2B marketplaces recently. Yahoo has a B2B marketplace linked with other B2B portals; eBay has business exchange on its site.

VerticalNet faces competitions from each area, but no one covers the whole spectrum. In content provider, the direct competitors, like BizProLink, are usually bricks and mortar companies. They either have no strong recognition as VerticalNet, or the capabilities for online exchange. In online exchange sectors, the

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competitors, like Commerce One, providing software program that allows companies to trade w. each other over the Internet, have the advantage of having established clients and transaction experience. But VerticalNet could still take the advantage from its majority traffic from the small and midsize companies. To expand business opportunities with small and midsize companies, larger companies might be interested in setting up a storefront in VerticalNet's communities. Also, there might be a better opportunity oversea for VerticalNet.

## **ANALYSIS OF RISK FACTORS**

The sale of advertising revenues still plays an important role in VerticalNet. We wish to see the increasing advertising revenues. The ability to increase the advertising revenues depends on factors such as the development of a large base of users on the vertical trade communities who possess demographic characteristics attractive to advertisers; the expansion of the sales force; and the discontinuity of barter arrangement where VerticalNet provide banner advertisements and storefronts to some of the customers in exchange for advertising on their Web sites/publications.

The e-commerce revenue shows rapid growth through exchange made in NECX from its second quarter report. We expect the company would keep the steady growth in e-commerce revenue streamline. Factors such as the vulnerability as single source exchange revenue, intensely competitive subject to rapid technology, the completion from marketplaces club by large industrial companies, the speed to apply NECX's experience to other communities, the volume of online buyers and sellers, and the regulation of FTC's antitrust for online exchange, may affect the growth of e-commerce.

The speed of international operations will be a key of succeeds in the future. VerticalNet has landed Europe, Japan, and South Africa for global expansion by purchasing a substantial amount of components from entities. There are a number of risks and uncertainties include: currency exchange rate fluctuations; tariffs, import and export controls and regulations and other trade barriers; increased costs and difficulties in managing and staffing international operations; and longer accounts receivable payment cycles. Others: VerticalNet might encounter the increasing license fees from content providers; Brand recognizing in industries; the transition process from traditional trading channel to digital marketplace; the difficulty to manage all communities effectively; and minimal integration with traditional procurement process and system since the company only provides posted price comparison in its communities.

## **RECENT AGREEMENT AND ACQUISITIONS**

### **STRATEGIC ALLIANCES**

- Microsoft.net

VerticalNet and Microsoft Corp. have a three-year strategic alliance to deliver business-to-business e-commerce services and content to small-and medium-sized businesses. As part of their strategic alliance, Microsoft will purchase at least 80,000 Storefronts and E-Commerce Centers from VerticalNet and distribute them to third party businesses. VerticalNet will assist Microsoft in distributing 30,000 of these Storefronts and E-Commerce Centers. Additionally, VerticalNet will build the Storefronts and E-Commerce Centers, incorporating Microsoft megaservices like Microsoft ClearLead, and place them within its communities of commerce. This strategic alliance represents a competitive advantage for VerticalNet by extending the reach to thousands of small- and medium-sized businesses and further validate VerticalNet's portfolio model of communities of commerce.

### **ACQUISITION PROGRAM**

The following highlights some of the most relevant ones announced to date:

- Tradeum

Tradeum-- a leading innovator in building digital marketplaces. It provides flexible and scalable B2B commerce platforms supporting online catalogs, auctions, and exchanges. Its current flagship product,

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Tradeum's eMarketplace Suite combined its Xchange Suite 2.0, features an innovative XML and Java-based platform for building dynamic marketplaces, as well as strategic partnership offerings to provide an end-to-end solution for market makers. It allows many buyers, sellers and transaction enablers to be matched real-time on a parameter-by-parameter basis.

By integrating the recent-acquired Tradeum and existing Isadra technologies with VerticalNet's marketplace expertise, it brings together the core competencies needed to deliver a all-encompassing solution for the builders of digital marketplaces. We would see VerticalNet has the compatible capability to perform auction, exchange, RFP/RFQ and catalog transactions in its marketplace. Taking the advantage of owning and operating its communities, VerticalNet also could pursued a range of alternatives through this acquisition, including: providing a one-stop technology solution for other Net Market Makers or partnering Global 2000 companies in industries they serve now or will serve in the future. It seems that VerticalNet is trying to position itself as other big competitors. In recent announcement, VerticalNet will partner with Computer Science Corporation, a leader in the development and launch of Net markets, to develop ElastomerSolutions.com digital marketplaces by using will use Tradeum's eMarketplace Suite.

- NECX.com

NECX.COM LLC-- one of the world's largest centralized market makers for semiconductors, electronic components, computer products and networking equipment

America IC Exchange ("AICE")-- among the first in the industry to offer an Internet-based pricing service, the RAMDEX(TM) index, for original equipment manufacturing ("OEM") customers. AICE specializes not only in, selling memory products, but also in understanding and resolving OEM inventory issues.

Through this acquisition, VerticalNet wants to create a comprehensive electronics exchange by integrating the market-making operations of NECX.com with its trade communities contained in the Advanced Technologies and Communications Groups. NECX.com acquired Real World Electronics in its first quarter to expand its market trading community. Recently, NECX.com have acquired AICE to integrate its resources to expand the capabilities of NECX's Global Electronics Exchange. Other business relationships: with Question.com to strengthen business relationships throughout the electronic community; with Art Technology Group to enhance customer relationship management's business-to-business e-commerce abilities; and with Informix and Vality to streamline online data management through software tools.

- Eastman Chemical Company (Joint Venture)

Eastman Chemical Company-- manufactures and markets more than 400 chemicals, fibers, and plastics. Eastmand has approximately 15,000 employees in more than 30 countries and had sales of \$4.59 billion in 1999.

The joint venture between Eastman Chemical Company and VerticalNet set up a company, PaintandCoatings.com. (An independent marketplace) The \$64 billion paints-and-coatings market offers a good opportunity for strong online business-to-business performance since Eastman could bring its customer and sales volume to the site. They are looking into more than \$10 million in revenue over the next 12 months.

- British Telecommunication & Internet Capital Group (Joint Venture)

VerticalNet has a joint venture with global communications company British Telecommunications, plc and B2B e-commerce Internet Capital Group for VerticalNet Europe. VerticalNet, Inc. is the majority shareholder in the joint venture.

- Softbank E-Commerce Corp. (Joint Venture)

The joint venture between VerticalNet and SOFTBANK E-COMMERCE CORP., a wholly owned subsidiary of SOFTBANK CORP, plans to VerticalNet Japan Kabushiki Kaisha. The communities will offer many of the same features as the U.S. version with localized editorial content and community services to meet the needs of Japanese businesses. The initiative of joint venture in Eurpoe and Japan is an important step towards the creation of a global network of B2B marketplaces.



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- TextileWeb & GovCon.com

With the acquisition of TextileWeb, Greensboro, NC, the textile industry's leading online vertical community; and GovCon.com, Rockville, MD, the leading online community for bidders on federal government contracts and some re-defined communities, VerticalNet boasts a total of 57 communities to date.

#### OTHERS

- GROCERY CENTRAL.COM—THE 57<sup>TH</sup> VERTICAL COMMUNITY

It will dedicate to building robust and interactive information and business resources for all segments of the grocery industry.

- ElastomerSolutions.com

VerticalNet and Computer Sciences Corporation (NYSE: CSC) will develop, build and implement the new Net market scheduled to begin offering services in the fall. ElastomerSolutions.com will be a online trading community included buyers and sellers of elastomeric ingredients, polymers and parts, as well as equipment and service in an online trading community serving the industry at large, offering a full spectrum of business processes and services for trading partners.

- WIZNET

VerticalNet has signed a multi-year pact with WIZNET, a leading Internet content management company, to manage supplier catalogs and associated materials - placing them on-line in their original formats, making them fully searchable in a natural language and linking them to VerticalNet's transaction capabilities. This allows VerticalNet to rapidly transform tens of thousands of printed and electronic supplier catalogs and other materials into interactive on-line documents.

- UNISCAPE

VerticalNet will use Uniscape's globalization infrastructure to create country-specific versions of its portfolio of online vertical trading communities and to globalize its core technology platform for international markets The project will include the creation of localized versions of selected online trading communities for VerticalNet Europe, and VerticalNet Japan.

- Announced agreements to offer services to VerticalNet's B2B communities: CapitalKey Advisors for investment banking services; CyberSource Corporation for e-commerce transaction services; Stockpoint for Web-based investment tools; Insurity Solutions for commercial insurance underwriting, quoting and policy management services; and httpprint and Impresse for print procurement services.

## FINANCIALS

**Revenue:** Combined revenues came from (1) increased sales of storefronts and e-commerce center (2) increased number of vertical trade communities (3) exchange revenue resulting from NECX's exchange operations. Storefront increased 153 percent in Q200 mainly from Microsoft's relationship. With the assumption of steady growth in Storefront and e-commerce from U.S. as well as from oversea potentially in the future, we expect revenue from advertising and e-commerce will reach \$131 million and \$302 million in 2000 and 2001 respectively. To date, exchange revenue only came from the performance in the sales of electronic components, which fully depends on its industrial cycle. Currently, the market shows a strong demand outlook for semiconductors as well as PC components until 2002. We disregard the potential that VerticalNet might apply its transaction experience to other industries on line and estimate exchange revenue as \$121 million and \$235 million in 2000 and 2001 respectively. We would have to adjust the revenue while VerticalNet UK, Japan, or Europe start their businesses.

**Editorial and Operational Expenses:** It consist primarily of Internet connection charges, cost of acquired content, depreciation, salaries and benefits of operating and editorial personnel and other related operating costs. Increases are mainly related to additional personnel required to maintain a larger number of vertical communities.

**Product Development Expenses:** It included salaries and benefits, consulting expenses and related expenditures. The increase resulted from increased staffing and the costs of enhancing the features, content and services of its communities.

**Sales and Marketing Expenses:** To promote its communities, an increasing number of sales and marketing personnel are added to the company.

**General and Administrative Expenses:** It consist of salaries and related costs for the executive, administrative, finance, legal, human resources and business development personnel, as well as support services and professional service fees. We made an adjustment to the estimated sign-in bonus of \$4 million from July's hiring of Joe Galli.

**Amortization Expense:** Goodwill resulted from acquisitions. Also included amortization of capitalized intangible assets, such as covenants-not-to-compete, assembled workforces, strategic relationships and technologies obtained from acquisition. The increase expenses result from the acquisition of Tradeum, AICE and three additional communities in first half year.

**In-Process Research and Development Expense:** A one time non-recurring charge of \$10.0 million for in-process research and development resulting from Tradeum transaction was expensed in Q100.

**Net Gain on Investment:** The net gain resulting from the company's receipt of publicly traded stock when the issuer acquired the company's shares of a privately help company in a merger and the subsequent realized lloss when VerticalNet sold some of that stock. In Q100, Ariba acquired all of the outstanding capital stock of Tradex. The company received 556,306 shares of Ariba valued at approximately \$86.5 million at the time of the reorganization in exchange for the shares of Tradex.

**Equity in Earnings of Affiliate:** The earning from NECX's ownership in Electronic Commodity Exchange Asia, Ltd.

**Interest, Net:** Income from the cash and cash equivalents and from investments and expenses related to financing obligations.

**Conversion payment to debt holders:** This charge made to certain holders of VerticalNet's convertible debt upon conversion of approximately \$93.3 million in debt into 4,664,750 shares of the company's common stock in April.

**Warrant Amortization:** It resulted from the difference between the cash received from the Microsoft investment in \$100 million Series A convertible redeemable preferred stock and warrants and the fair value of such securities of \$108 million.

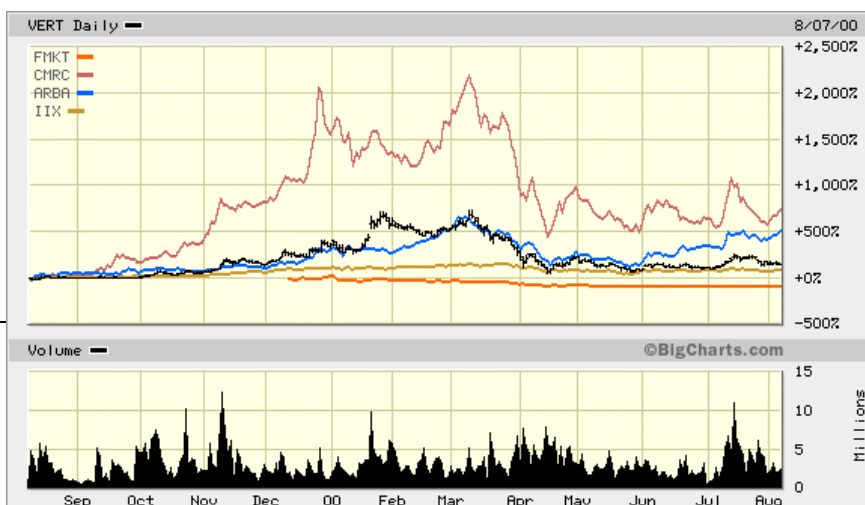
**Net Income:** VerticalNet will remain loss through this year. Positive earning would likely occur in 2001 due to increasing growth services and stabilized infrastructure.

**Cash:** Since IPO in March 1999, VerticalNet relies greatly on issuing shares to raise capital. Share outstanding will keep rising by hundred thousand for the next quarters to finance the company.

With the potential growth in VerticalNet International and the development needs of its business, we expect the gross margin to be 83% and 84% in 2000 and 2001 respectively. The EPS estimates are (\$2.37) and (\$2.49) respectively.

## VALUATION

A historical price comparison among B2B companies reveals the B2B sector is less correlative to the Amex Internet Index (IIX). There was a dramatically drop in B2B stocks in spring due to a report concerning "cash burn" of



Internet companies on March 20, 2000. In early of July, B2B stocks started climbing again since the significant growth from Ariba's 3Q00 report, which lighted up the confidence to B2B business. The stock price of VerticalNet has been up to \$63 3/8 at that time. Recently, the stock price step back to \$44-\$47 range.

Value Comparison 08/09/00

Company	Ticker	Price	Market Capitalization (Million)	Customers	Price to Sales ratio	Price to Customers ratio	Gross Margin
VerticalNet	VERT	\$ 44.13	3,665	6,864	70.76	0.01	83.7%
Ariba	ARBA	142.50	33,602	146	135.69	0.98	82.7%
Commerce One	CMRC	51.25	7,977	210	54.56	0.24	66.0%
FreeMarket	FMKT	55.38	2,081	64	31.45	0.87	43.4%
Average	-	-	11,831	-	73	0.52	68.9%

From the comparison table as above, Ariba has relevant highest Price to Sales ratio and Price to Customers ratio due to the expectation of high-margin profit as a software provider. VerticalNet takes the highest margin in the recent quarter and moderate Price to Sales ratio, but the lowest Price to Customers ratio. This reflects: Although VerticalNet owns a large amount of Storefront customers from small and midsize companies, the revenue of advertising is not richly valued compared to the revenue of transaction. As other B2B stocks, VerticalNet does not trade at inexpensive price. However, if VerticalNet successfully upgrades its Storefronts to e-commerce center, and completely leverages NECX's exchange to other communities, we would say the price of VerticalNet is undervalued. To date, VerticalNet is well positioned to extend the lead due to the first mover advantage, and expanded its communities globally. We therefore believe that VerticalNet has a significant growth potential and that, as discussed above, it currently has a reasonable valuation. We thus give its stock a BUY recommendation.

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